

ABSTRACT

This study attempts to determine the macro-economic effects of high interest rate spreads in Trinidad and Tobago. To do this we apply Vector Auto-Regressive (VAR) analysis and Granger causality testing to real savings, real loans, real Gross Domestic Product and interest rate spreads.

Based on the results of the econometric investigation we found that financial intermediation has a significant but short-term impact on the real economy. Also changes in the real economy was found to have a positive effect on savings levels.

High interest rate spreads was found not to have a significant impact on real loans and national income. A positive relationship was found to exist from the spread to real savings, perhaps reflecting significant interest rate elasticity of savings, however we believe that this may have been too small to have a significant impact on the real economy.